

Remarks

The applicant would like to thank the Examiner for the courtesies extended during the telephone interview on February 4, 2004. During that interview, applicant and his counsel discussed various differences between the invention and the cited prior art and gave the Examiner another overview of the invention similar to that discussed in the previous interview.

As noted during the interview, there are numerous significant differences between the subject invention as it is claimed and the prior art. The points raised in the interview are outlined below. Reconsideration of the outstanding Office Action is hereby requested.

Claims 100-115 have been rejected under 35 U.S.C. §103(a) as being unpatentable over Ryan, U.S. Patent No. 6,304,859 in view of College of Financial Planning (2000) ("College") and further in view of Udell (National Underwriter 1999). These rejections are respectfully traversed for the reasons set forth below.

I. The Invention is Clearly Claimed and No Additional Amendments are Needed

The new claims presented in the paper filed on November 3, 2003 clearly and distinctly point out the scope of the invention. The applicant will again briefly summarize the invention.

With regard to Claim 100, for example, the method comprises several steps, listed here as Steps 1 to 5, with a brief explanation (where appropriate) of additional terms under the steps:

Step 1: Arranging financing from a commercial lender.

Step 2: Using a first entity to acquire at least one annuity for each insured person.

This annuity is acquired using a portion of the financing from the commercial lender. The first entity is owned by a second entity that is of a tax favored nature.

The income stream from each annuity is allocated to the second entity so that each

income stream receives tax favored treatment. In the claim, the term “tax favored treatment” refers back to the term “income stream.” Therefore, a reference relating to different tax favored treatments such as estate tax is simply not relevant to tax favored treatment of an income stream.

Step 3: Acquiring at least one life insurance policy for each insured person using a set of third entities.

The owner of each third entity has an insurable interest in one of the insured persons. Each third entity acquires at least one life insurance policy on the life of that insured person. Each third entity is organized in a manner to shield the insured person on which it has acquired life insurance from two things: (1) liability from the commercial lender; and (2) any taxes on the annuity acquired for that insured person.

Step 4: Using a portion of the financing to pay the initial premium for each life insurance policy.

Step 5: Distributing the income streams from the annuities to pay the annual premiums for the life insurance policies and to pay the interest and principal on the financing.

Each of these five steps is set out in Claim 100. It is believed that this invention is clearly claimed and is distinguishable from the prior art for the reasons set forth below, and that no further amendments to the independent claims are needed.

II. THE PRIOR ART DOES NOT TEACH OR SUGGEST THE COMBINATION OF ELEMENTS CLAIMED IN THIS APPLICATION

A. The Cited References Are Not Applicable

As noted in the interview, the cited references are directed to very different problems than the claimed invention and are not applicable. For example, the Udell reference is similar to the Kay reference cited in the application. Udell can best be described as a system of replacing the income stream of municipal bonds through a combination of life insurance and an annuity in order to minimize estate taxes. This Udell system does nothing to shield the owner from income taxes, however, and the article specifically notes that income taxes must be paid on the annuity income stream to the extent it exceeds the return of principal. Furthermore, such a system as taught by Udell (or Kay) likely will create gift tax liability.

The College reference is best described as a method of creating an irrevocable life insurance trust to minimize estate taxes.

The Ryan reference is a system for determining the optimal premium structure for a variable life insurance policy. Life insurance policies are purchased by employees using loans from an employer sponsored non-qualified benefit plan.

Ryan and College teach methods of minimizing estate taxes. They have nothing to do with a method or system for minimizing income taxes as claimed in the present invention.

There are at least five distinct differences between the claimed invention as set forth in Claim 100 and the prior art, and there are key elements of the claim that are simply not present in any of the references, either explicitly or implicitly. These distinctions are each sufficient to mandate allowance of the claim at this time.

B. None of the Cited References Teach the Use of Multiple Entities

All of the cited references disclose the use of only one entity, and no reference teaches a system or a method that combines the use of more than one entity. As noted above, Claim 100 requires the use of three entities, all of which are distinct. Specifically, Claim 100 requires:

- (a) a first entity to acquire the annuity;
- (b) a second entity which is of a tax favored nature and which owns the first entity; and
- (c) a set of third entities which acquire the life insurance policy for each of the insured persons.

It is not just the existence of multiple entities, but it is also the interrelationship of these entities that is important to the claims, and claim 100. Such an interrelationship is certainly not suggested or taught by any of the references. None of the points mentioned by the Examiner in the last Office Action addresses the use of multiple entities within a single system. This distinction is sufficient to require allowance over the claim.

C. The Cited References Do Not Teach The Use of An Annuity As Claimed

There is no annuity disclosed in the Ryan or College references. The Examiner has admitted this, but has stated the following:

Udell further teaches purchase of an annuity in combination with life insurance (page 1) but with no estate tax (page 2) as it is owned by an irrevocable trust (page 2) yet with an annuity producing an income stream for the beneficiary (page 2).

Office Action, page 3. This statement is incorrect. In the Udell reference, the insured actually buys the annuity. See, Udell, page 2, para. 6. Therefore, none of the references teach or even suggest the purchase of an annuity by a first entity, where the first entity is owned by a second

tax favored entity, and where the income stream from the annuity is allocated to the second entity. This distinction on its own is also sufficient to permit allowance of the claim.

D. The Cited References Do Not Teach Tax Favored Treatment for an Income Stream

Claim 100 requires that the income stream receives tax favored treatment. The College and Udell references teach protection from estate taxes and not income taxes. None of the references, either on their own or combined, teach shielding from income taxes. Again, this distinction is sufficient to permit allowance of this claim over any of the cited art or any combination thereof.

E. The Cited References Do Not Teach the Purchase of an Annuity Using Financing

Claim 100 also requires that the first entity acquire at least one annuity for each insured person using a portion of the financing. None of the references teach buying an annuity using financing. There is no annuity in the Ryan or College references. The Udell reference mentions an annuity, but there the annuity is acquired from the proceeds of a sale of municipal bonds. *See*, Udell, page 2, paragraph 6. Again, this element is simply missing from all of the references and this distinction compels allowance of claim 100 and its dependent claims.

F. The Cited References Do Not Teach Multiple Entities to Acquire the Life Insurance Policies

The claims, including claim 100, also require that a “set of third entities” is used to acquire at least one life insurance policy for each insured person. As noted above, there is no reference that teaches multiple entities (*i.e.*, the first, second and third entities). However, Claim

100 requires a “set” of third entities. In Ryan, no entity buys any policy; a benefit plan acts as a lender to employees who buy their own life insurance policies. In Udell and College, the one entity is an irrevocable life insurance trust.

G. The Cited References Do Not Teach a Third Entity Organized to Shield the Insured Person from Taxes on the Annuity

Claim 100 also requires that “each third entity is organized in a manner to shield the insured person. . . from any taxes on the annuity acquired for that insured person; . . .” The Udell and College references do not shield the insured from income taxes. Since both are irrevocable life insurance trusts, they do not afford this protection. Furthermore, the Udell and College references create a gift tax liability from the manner in which they are structured. Such creation of additional tax liability actually teaches away from the invention and demonstrates that these references should not be combined with the Ryan patent. The Ryan reference teaches employees buying their own life insurance policies, which is not a shield of liability or taxes. Furthermore, Ryan and College do not use an annuity. This is yet another reason why this claim is distinguishable from the prior art.

H. The Cited References Are Not Properly Combined Under §103

A rejection under §103 requires some suggestion or motivation to modify one or more of the cited references to arrive at the claimed invention. When considering obviousness, it is impermissible to use hindsight or the Applicant’s disclosure to provide the necessary suggestion or motivation. As noted above, the cited references are missing key elements of the claim and even if they were properly combined they would not teach every element.

The remaining independent claims are also distinct from the prior art for many of the same reasons.

For example, independent Claim 113 also requires a first entity, a second entity and a set of third entities. As noted above, these multiple entities and their relationship to one another is not taught, suggested or disclosed in any of the references.

Claim 115 also requires the use of a first entity, a second entity and at least one third entity. There are additional differences between Claims 113 and 115 and the prior art, but it is believed that these do not need to be further addressed in detail here.

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It was noted during review of the claims that Claims 103-106 included a typographical error. These claims have been corrected to change the “first entity” to the “second entity.” This amendment does not change the scope of these claims as it was merely a typographical error and the claims as originally submitted did not cohere with Claim 100. Claim 101 has been deleted.

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It is believed that the claims are now in condition for allowance. Given the special status of this case and the fact that it has had two interviews and three office actions, it is respectfully requested that this application be granted a Notice of Allowance at the earliest possible date.

Please call the undersigned attorney if you have any questions regarding this matter.

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Respectfully submitted,

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